

**Summary:**

**Ramsey County, Minnesota; General  
Obligation**

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### Credit Profile

US\$10.6 mil GO cap imp plan bnds ser 2019A due 02/01/2039

<i>Long Term Rating</i>	AAA/Stable	New
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Ramsey Cnty GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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## Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Ramsey County, Minn.'s series 2019A general obligation (GO) capital improvement plan (CIP) bonds. At the same time, we affirmed our 'AAA' rating on the county's existing GO debt. The outlook is stable.

### Security and use of funds

The series 2019A bonds are secured by the county's GO, full faith and credit pledge and power to levy direct, general ad valorem taxes on all taxable property within its borders. Bond proceeds will be used to finance various capital improvement projects in the county's CIP.

The county's bonds are eligible for a rating above the sovereign because we believe the county can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), we consider state and local governments to have moderate sensitivity to country risk. The county's local property tax revenue is the primary source of security on the bonds, which significantly limits the possibility of negative sovereign intervention in the payment of debt or operations. The institutional framework in the nation is predictable for local governments, allowing them significant autonomy and independent treasury management; there has been no history of negative federal government intervention in local finances.

### Credit overview

We view the county's economy as very strong and benefiting from the stabilizing influence of the state capital and various higher education and health care institutions. The county also benefits from a very strong management team which has demonstrated a commitment to structurally balanced operations and the maintenance of very strong general fund reserves, which were at the top end of its fund balance policy in 2018 (50% of expenditures). The county's draft fiscal 2018 audit, indicates it added \$7 million to its general fund balance after a \$14 million transfer of its surplus fund balance to its capital projects fund. It has adopted a structurally balanced budget for 2019. The debt profile is strong relative to its budget as well as its market value, which we expect to continue. Following the passage of pension reform legislation for the state cost-sharing pension plans last year, we also view the county's pension burden to be improving.

The 'AAA' rating reflects our view of the county's:

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- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA) and a local stabilizing institutional influence;
- Very strong management, with the ability to consistently maintain balanced operations and good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 49% of operating expenditures;
- Very strong liquidity, with total government available cash at 74.2% of total governmental fund expenditures and 19.0x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 3.9% of expenditures and net direct debt that is 24.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 77.2% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

### Very strong economy

We consider the county's economy very strong. Ramsey County, with an estimated population of 550,210, is in the Minneapolis-St. Paul-Bloomington MSA, which we consider to be broad and diverse. It is the state's second-largest county by population and includes the city of St. Paul, which is both the state capital and county seat. The county also benefits, in our view, from a stabilizing institutional influence. It has a projected per capita effective buying income of 103.7% of the national level and per capita market value of \$96,286. Overall, market value grew by 7.6% over the past year to \$53.0 billion in 2018. The county unemployment rate was 2.7% in 2018.

Ramsey County is home to some of the state's largest public and private sector employers, including the University of Minnesota's St. Paul campus (with approximately 18,000 employees), the state of Minnesota (14,122), 3M Co. (industrial and consumer products, 10,500), and Independent School District No. 625 (5,966).

The prominence of state government, many large city governments and the county itself, as well as multiple higher education institutions and several large hospitals, support our view that the city benefits from stabilizing institutions, which we view as an additional strength that is not necessarily reflected in wealth and income measures.

Ramsey County's market values have demonstrated steady growth post-recession, with economic market value increasing 28% between 2013 and 2018. Preliminary estimates from county assessor indicate a 6.5% overall increase for taxes payable in 2020. The city of St. Paul makes up approximately half of the county's total tax base and is undergoing a strong economic resurgence, with strong commercial as well as multi-residential growth. St. Paul and Ramsey County reported their highest valuation of building permits ever in 2017, partly due to the construction of Allianz Field, a \$150 million professional soccer stadium, which recently opened, as well as development in the surrounding area. However, nearly as strong valuations were reported in 2018 and the trend is expected to continue in 2019.

We expect the strong economic growth to continue as there are several large developments in the county in the planning stages: a 150-acre redevelopment at the former Ford assembly plant site, a five-acre downtown riverfront site

owned by Ramsey County called Riverfront Properties, and a 17-acre redevelopment of a former Sears site adjacent to the Capitol. Due to ongoing development in both St. Paul and suburban Ramsey County, we expect the economy to remain very strong over the next two years.

### **Very strong management**

We view the county's management as very strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis. In addition, our assessment of management indicates the county's consistent maintenance of balanced operations. Over the past three years, general fund operating results have ranged from 1.6% to 2.0%.

Highlights to the FMA include:

- Strong budgeting framework that includes the use of performance-based budgeting, tying programs to outcomes and objectives, and where revenue and expenditure forecasts are informed by historical data and numerous external data sources;
- Standard budget monitoring practices, where the county manager and department heads, though not the full county board, routinely review budget-to-actual performance and where budget updates are made in a timely fashion in accordance with well-established procedures, as reflected in consistently on-target or conservative budget results;
- A detailed, two-year budget that demonstrates a concern for long-term structural balance and addressing issues from a multiyear perspective, even if the budget only extends a year into the future;
- A rolling six-year CIP that lays out capital project specifications in detail and ties project costs to funding sources and strategies;
- A formal investment policy with quarterly reporting on investment holdings and earnings to management and annual reporting to the county board;
- A detailed debt management policy that sets qualitative and quantitative parameters around debt structure and issuance; and
- A formal fund balance policy that required a minimum unassigned general fund balance of no less than two months of the subsequent year's budget and an unrestricted fund balance no more than half of current-year revenues, expenditures, or the subsequent year's budget, with the policy thresholds chosen to mitigate revenue volatility and maintain an emergency reserve.

### **Strong budgetary performance**

Ramsey County's budgetary performance is strong, in our opinion. The county had operating surpluses of 5.0% of expenditures in the general fund and 8.6% across all governmental funds in fiscal 2018.

We have adjusted general and total governmental fund revenues and expenditures to account for routine transfers and the expenditure of bond proceeds. With sustained, incremental revenue growth each year following the Great Recession and tight monitoring of expenditures, the county has run general fund surpluses in each of the past ten audited fiscal years and has generally seen positive results across governmental funds as well, after adjusting for capital spending and the spending of bond proceeds.

The original 2018 budget was break-even, including a 4.3% tax levy increase. However, the county's draft fiscal 2018 audit indicates another strong year with the available general fund balance increasing by over \$7 million (1.6% of expenditures) due to higher revenue from grants and investment earnings and lower expenditures related to vacant positions. Additionally, the county was able to make a \$14 million transfer from the general fund to its capital projects fund to maintain reserves at its policy level of 50% of expenditures. Results across total governmental funds were even stronger, mostly resulting from its first year of transportation sales tax revenue (\$43.5 million) as well as the strong general fund results.

The fiscal 2019 supplemental budget calls for a 3.4% spending increase over 2018, and, similarly, includes another 4.3% property tax increase, maintaining structural balance. Year-to-date, there have been no significant negative variances from budget, and management estimates similar results to 2018.

The 2020-2021 biennial budget is in development and expected to be presented to the County Board on Aug. 6, 2019. Given the county's focus on structurally balanced operations and strong record of outperforming its budget in the general fund and across governmental funds, we expect overall budgetary performance to remain strong for the foreseeable future.

### **Very strong budgetary flexibility**

Ramsey County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 49% of operating expenditures, or \$233.0 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 46% of expenditures in 2017 and 48% in 2016.

The county's formal fund balance policy requires a unassigned general fund balance of no less than two months of the subsequent year's budget and an unrestricted fund balance of no more than half of current-year revenues, expenditures, or the subsequent year's budget, with any fund balance in excess of the maximum transferred each year to the capital projects fund for pay-as-you-go capital. Over the last several fiscal years, the county's reserves have been nearly double the minimum requirement and have frequently been at or near the maximum, which has allowed frequent transfers out to the capital projects fund. Given its stable operating environment and no planned draws on reserves, we expect reserves to remain in line with its policy requirements and overall budgetary flexibility to remain very strong.

### **Very strong liquidity**

In our opinion, Ramsey County's liquidity is very strong, with total government available cash at 74.2% of total governmental fund expenditures and 19.0x governmental debt service in 2018. In our view, the county has strong access to external liquidity if necessary.

The county's frequent access to capital markets to issue GO debt supports our view that it has strong and well-tested access to external sources of liquidity, if needed, and we expect little material change in its cash levels in the near term. The county's investment portfolio--consisting mainly of highly rated securities--does not represent a source of liquidity risk, and it has no exposure to direct-purchase or variable-rate instruments. It has one GO note that was privately placed with the Minnesota Public Facilities Authority in 2001. There is currently \$3.752 million outstanding,

which we do not view as a liquidity risk.

### **Very strong debt and contingent liability profile**

In our view, Ramsey County's debt and contingent liability profile is very strong. Total governmental fund debt service is 3.9% of total governmental fund expenditures, and net direct debt is 24.2% of total governmental fund revenue. Overall net debt is low at 2.8% of market value, and approximately 77.2% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

The county plans to issue GO debt of approximately \$25 million in 2020 and \$27 million in 2021 for CIP projects and its Maplewood Library projects. It may issue some additional debt to finance a share of the infrastructure improvements for the Rice Creek Commons mixed-use development. Given the amount of debt that the county will amortize over the next two years, we do not believe the additional debt issuances will have a material effect on its overall debt profile. Additionally, because of the large amount of money the county has been able to transfer to its capital projects fund, it will continue to be able to fund many projects on a pay-as-you-go basis.

Ramsey County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.4% of total governmental fund expenditures in 2018. Of that amount, 3.3% represented required contributions to pension obligations, and 2.0% represented OPEB payments. The county made its full annual required pension contribution in 2018. The county participates in three cost-sharing multiple-employer pension plans, including the General Employees Retirement Plan (GERP), the Public Employees Police and Fire Plan (PEPFP), and the Public Employees Correctional Plan (PECP), which are administered by the Public Employees Retirement Association of Minnesota (PERA). Required pension contributions to these plans are determined by state statute. Statutory contributions rates have generally not kept pace with actuarially determined contribution (ADC) rates, indicating potential for future payment acceleration. In May 2018, the state passed pension legislation that will marginally increase contributions (for PEPFP only), reduce the investment rate of return to 7.5% (from 8%), and reduce some employee benefits (primarily cost-of-living adjustments). While we view these as positive changes for future plan funding levels, the lack of an actuarial funding policy remains a weakness in these plans. For more information about the reforms included in the 2018 omnibus retirement bill and the potential for future cost increases see our article, "Minnesota's New Pension Bill Is A Positive Step Toward Sustainable Funding" (published on June 7, 2018).

The GERP, PEPFP, and PECP were 79.5%, 87.1%, and 95.6% funded, respectively, in fiscal 2018. The county's proportionate share of the net pension liability for these plans totaled \$201 million in fiscal 2018. We consider historical plan funding levels somewhat weak, and we believe that the history of pension contributions below ADC increases the risk of payment acceleration. Additionally, in our view, the plan's investment portfolio is exposed to significant market risk, with only 22% of its investments allocated to fixed income and cash, which increases the risk for volatility in plan funding levels. Despite these weaknesses, we believe the county has sufficient taxing and operational flexibility to manage future increases in pension contributions. However, in the future, if pension contributions absorb a larger share of the county's budget, our view of its debt and contingent liability profile could weaken.

The county also offers OPEBs to its retirees and began pre-funding the liability through a revocable trust in 2012. In fiscal 2018, it converted the revocable trust to an irrevocable trust. At the end of fiscal 2018, the trust fund held \$70.9

million in assets, resulting in a net OPEB liability of \$149.9 million (32.1% funded). For the near-to-medium term, the county plans to continue to pay its OPEBs on a pay-as-you-go basis, rather than draw on the trust, and allow the trust to grow through investment earnings. OPEB costs have generally been small as a share of total spending in recent years, and, as with pension contributions, are not, in our view, a significant source of budgetary concern at this time.

### Strong institutional framework

The institutional framework score for Minnesota counties with a population greater than 5,000 is strong.

## Outlook

The stable outlook reflects our expectation that Ramsey County should continue to experience strong economic growth through at least the two-year outlook horizon, supporting a favorable revenue environment and overall fiscal stability. We would also expect management to proactively address any prospective signs of fiscal stress in a way that would allow it to sustain a healthy financial position through a period of moderate distress, as it did in the years immediately following the last recession.

While unlikely, downside pressure would most likely come via weakening across multiple factors, such as a slowdown in the economy leading to weaker economic metrics, resulting in weaker revenue performance, and perhaps accompanied by rising pension costs. Given that we do not expect such a scenario in the next few years, we do not anticipate lowering the rating within the two-year outlook horizon.

## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Ratings Detail (As Of May 31, 2019)		
Ramsey Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Ramsey Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Ramsey Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Ramsey Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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